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GENERAL ACCOUNTING OFFICE WASHINGTON DC PROCUREMENT --ETC F/G 15/5
THE NAVY IS NOT ADEQUATELY PROTECTING THE GOVERNMENT'S INVESTME--ETC(U)
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GAO/PLRD-81-36

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-200353

JUNE 9, 1981

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The Honorable John F. Lehman
The Secretary of the Navy

Dear Mr. Secretary:

Subject: The Navy Is Not Adequately Protecting the Government's Investment in Materials Furnished to Contractors for Ship Construction and Repair (PLRD-81-36) ✓

The Navy provides billions of dollars of Government-furnished materials (GFM) to contractors for use in constructing, overhauling, and repairing Navy ships. However, the Navy does not know how much GFM is in its contractors' possession because there are no overall financial or other management systems to account for these materials. No person or office is either responsible or accountable for overall protection of the Government's investment in those GFM the Navy provides contractors.

Responsibility for monitoring these materials is highly fragmented among Naval Sea Systems Command (NAVSEA) activities in Washington, D.C., and local Supervisors of Shipbuilding, Conversion, and Repair (SUPSHIPS) located throughout the United States. Moreover, NAVSEA's focal point for SUPSHIP operations has not ensured that SUPSHIPS carry out their responsibilities for managing GFM in accordance with the Defense Acquisition Regulations (DAR) 1/ and other Defense and Navy policies and regulations.

Of four SUPSHIPS we visited, no two were carrying out the basic regulations and instructions for GFM management in the same manner. As a result, SUPSHIP management of GFM varied widely in effectiveness. For example:

--SUPSHIP-Seattle was effectively managing GFM by (1) ensuring that contractors complied with DAR and (2) using a computerized monitoring system. We found no significant deficiencies in GFM management by Seattle's contractors.

1/Formerly the Armed Services Procurement Regulations.

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--SUPSHIP-Newport News was not adequately enforcing DAR even though the Naval Audit Service has repeatedly reported deficiencies in the contractor's GFM control procedures. We could not determine the overall effect of these deficiencies because of the way the contractor was maintaining warehouse stocks and inventory records. However, we identified a number of errors in accounting for GFM in the warehouse. For example:

1. Two transducers valued at \$5,460 were listed on the contractor's records as being transferred to a shipyard shop in May 1975. However, as of August 1980 they were still in the warehouse. Neither the Navy nor the contractor knew they were there.
2. An isolator valued at \$3,500 was not included on an excess GFM list submitted to SUPSHIP in August 1979. A year later, it was still in the warehouse. Neither the property administrator nor the contractor had caught and corrected the error.
3. Several items on which SUPSHIP had ordered disposition up to 3 years earlier were still in the warehouse.
4. Twenty-two hand sets valued at \$3,354 had no warehouse location listed on the contractor's records.

--SUPSHIP-Portsmouth was not managing GFM in the most efficient manner. Its manual system of accounting for material is inadequate for controlling items and redistributing those that are excess. For example, over \$436,000 of excess GFM in Portsmouth's warehouse could have been redistributed much more efficiently if it had an effective computerized GFM inventory management system. Moreover, some property administrators were not fully complying with DAR because (1) some were maintaining duplicate sets of contractor records rather than relying on those at contractors' sites, and (2) some were not conducting annual audits at the contractors' sites.

--SUPSHIP-Pascagoula was not monitoring and disposing of excess GFM, scrap, and salvage in accordance with DAR and other directives.

OBJECTIVES, SCOPE, AND METHODOLOGY

We made this review to determine the Navy's progress in managing GFM in the contractors' possession. These problems were identified in previous Naval Audit Service and GAO reports. (See encl.) We interviewed officials involved in GFM management at NAVSEA, four SUPSHIPS, the Naval Supply Systems Command, and the Naval Material Command.

At NAVSEA, we compared GFM management methods used by selected ship acquisition project managers, ship logistics divisions, material managers, and other NAVSEA activities. We also reviewed the GFM management, both before and after delivery to the contractors, by the four SUPSHIPS at Newport News and Portsmouth, Virginia; Pascagoula, Mississippi; and Seattle, Washington. This review included the GFM management systems of 10 contractors monitored by the four SUPSHIPS.

We based our selection of the SUPSHIPS on a cross-section of two large and two medium-sized SUPSHIPS--some doing new construction and major overhauls, others doing repair/overhaul work. We maximized dollar coverage of progress payments by selecting four SUPSHIPS that monitored contracts receiving 51 percent of these payments for fiscal year 1979. The four SUPSHIPS are strategically located in three different geographical sections of the country, two being physically located at and wholly dedicated to monitoring Navy contracts in only one shipyard each. All of the SUPSHIPS selected have contract administration responsibility, and one is a planning SUPSHIP for amphibious ship overhauls.

BACKGROUND

The Navy provides billions of dollars of GFM to private contractors for use in ship construction, overhaul, and repair. GFM includes parts, components, assemblies, raw and processed materials, and supplies that are attached to or incorporated into ships. Various Navy commands either own or acquire the materials and issue them to the contractors as part of the contractual agreement.

No single activity within NAVSEA is responsible for overall financial accountability of GFM. Therefore, it was not possible to determine the total amount of GFM in the contractors' possession. Moreover, no activity is ensuring adequate oversight or management of GFM.

SUPSHIPS administer ship construction, repair, and overhaul contracts at commercial shipyards and other contractors. Some monitor one large shipyard's contracts, while others monitor multiple small, medium, and large contractors.

A SUPSHIP's functions may include (1) planning for overhauls and repairs, (2) conducting the procurement process, and (3) administering a new construction or repair contract once it has been awarded. A single SUPSHIP may do all or only portions of these functions for a given contract.

The extent of a SUPSHIP's responsibilities for GFM is determined by the functions it must perform in relation to a given contract. For example, if the SUPSHIP is planning an overhaul or repair, a technical planning group within the SUPSHIP will help determine which materials will be Government furnished versus contractor furnished. A SUPSHIP may also begin procurement through its materials division for GFM requiring a long leadtime. If the SUPSHIP is administering a contract, it must (1) review, approve, and monitor the contractor's GFM management system, (2) monitor contract progress and completion, and (3) dispose of excess GFM at contract completion.

Sixteen SUPSHIPS are located throughout the United States. These vary greatly in size and composition according to the functions performed and the number and size of contracts administered.

The SUPSHIPS could provide only broad estimates of the amount of GFM in their contractors' possession. On new construction, the estimates for two SUPSHIPS' contracts ranged from \$22 million to over \$400 million a ship. For repair and overhaul, the estimate for one SUPSHIP's contracts ranged from \$0 to \$904,000 a ship.

SUPSHIP officials said that neither they nor the contractors could provide more exact figures because higher commands did not furnish the data. Although DAR requires contractors to maintain GFM unit costs, in many cases, the Navy does not give contractors this information.

NAVSEA's ROLE IN MANAGING GFM IS HIGHLY FRAGMENTED

The organizational structure of NAVSEA does not provide for a single authority responsible for managing GFM. Instead, a number of its headquarters' activities are involved in developing policies and procedures and managing material, but each activity functions independently. No management oversight exists of GFM despite the longstanding problems that have troubled this area. Moreover, NAVSEA does not make frequent, comprehensive evaluations of SUPSHIP activities, even though NAVSEA places maximum reliance on their GFM management.

NAVSEA does not know the value of GFM budgeted for ship-building, alteration, repair, or overhaul. Instead, this

information is fragmented among 12 ship acquisition project managers, 10 project offices, 4 ship logistics divisions, 16 SUPSHIPS, at least 14 material managers, and other NAVSEA activities.

Problems increase when GFM is issued to the contractor or SUPSHIP because the headquarters, as well as the supply system, loses visibility over the materials. In the past, we reported that the lack of inventory manager visibility over large numbers of excess items in Navy shipyards resulted in duplicate, unnecessary procurements. We also reported that the lack of visibility over the total inventory and its fluctuations is one of the Navy's greatest obstacles to efficiently managing its inventories. 1/ The potential for duplicate purchases is even greater when contracting with commercial shipyards because of the larger number of Navy activities involved in buying GFM and the hundreds of private contractors possessing GFM.

Specific responsibility for developing GFM policies and procedures is not clearly assigned to any single NAVSEA activity. For example, NAVSEA Instruction 5400.1B states that:

The principal deputy commander for logistics will:
"Promulgate command policies for ensuring that logistic support requirements are planned, programmed, budgeted, and acquired concurrent with ship, ship system, and combat system development, acquisition, and alteration * * *."

The ship system directorate will "Develop command policies and procedures * * * for material management * * *."

The principal deputy commander for acquisition will
"Develop and promulgate acquisition policies on matters relating to ships, ship systems and combat systems."

NAVSEA is not receiving and reviewing local SUPSHIP policies and procedures to ensure adequacy, consistency, and compliance with DAR and other directives. NAVSEA Instruction 4341.1 requires that local Government property administration instructions be submitted to the SUPSHIP management division--yet this is not done.

1/"Navy Has Opportunities to Reduce Ship Overhaul Costs" (LCD-80-70, June 17, 1980).

We had to obtain copies of the guidelines from the various SUPSHIPS. An official told us the SUPSHIP management division does not have enough staff to evaluate local guidelines--approximately 10 individuals to cover the 16 SUPSHIPS. So, the management division relies on the NAVSEA Inspector General and the Naval Audit Service to detect guideline deficiencies, even though both audit groups inspect each SUPSHIP only about once every 3 years. Furthermore, when these audits are made and deficiencies are noted, the SUPSHIP management division is not ensuring corrective action is taken.

A recent Naval Material Command inspection concluded that NAVSEA material management policy and procedures were inadequate. It found insufficient formal delineation of responsibilities between activities involved with material management and supply support policy issues. Also, a NAVSEA Inspector General report stated:

"* * * there is no single 'home' within the Naval Sea Systems Command to provide guidance or direction of use to the Supervisor of Shipbuilding Organizations. Such a professional point of contact within NAVSEA 074 [SUPSHIP Management Division] could possibly pay big dividends in areas of standardization, data processing, material salvage, contract clauses, better ship logistics support, etc. Such a 'home' would also serve at Headquarters to represent the SUPSHIP point-of-view in relation to policies and directives or other logistics actions * * *."

SUPSHIPS' MANAGEMENT OF GFM IS INCONSISTENT

Although the basic regulations and instructions for all SUPSHIP administration of GFM are the same, none of the four SUPSHIPS were interpreting and applying these regulations in the same manner. As a result, SUPSHIP management of GFM varied widely in effectiveness.

These differences were due to (1) the autonomous nature of SUPSHIPS and their interpretation and application of Defense and Navy regulations, (2) the lack of NAVSEA management oversight, and (3) NAVSEA's failure to ensure that reported audit deficiencies were corrected.

SUPSHIP-Seattle was effectively managing GFM

SUPSHIP-Seattle is responsible for administering shipbuilding, repair, and overhaul contracts with 13 shipyards in the Pacific Northwest. As of September 1980, this administration involved an estimated \$1.32 billion in ongoing contracts.

Seattle was more effectively managing GFM than the other SUPSHIPS reviewed. For example:

--The property administrator was actively involved in ensuring contractor compliance with DAR.

--The SUPSHIP maintained visibility over GFM on order and in the SUPSHIP's warehouse through its own computerized monitoring system.

The greater effectiveness in these areas resulted in reliable contractor control systems for GFM, timely redistribution of excess items, and a more efficient system for tracking and expediting GFM on order and in the SUPSHIP's warehouse.

Property administration

Seattle's property administrator emphasizes compliance with DAR in the establishment and maintenance of contractor systems to control, protect, and preserve Government property. To monitor contractor management of GFM, the administrator:

--Requires, reviews, and approves contractor GFM controls.

--Conducts annual audits to ensure contractor adherence to approved GFM controls.

--Makes unannounced inspections of contractor sites periodically to ensure continuing contractor compliance.

--Has established with contractors an ongoing process for disposing excess new GFM.

--Validates contractor terminal inventories by physically inspecting excess new GFM and determining disposition.

The property administrator has required the contractor to provide the same care for GFM as for contractor-furnished materials (CFM) and has ensured the contractors' systems conform with DAR. Each contractor's system is in writing and contains:

--A system of receipt, ensuring prompt and accurate receiving reports.

--The segregation of GFM from CFM and accurately identified storage locations.

--Provisions for adequately protected storage facilities.

--Inventory control records to include the issuing of GFM to contractors' shops and reporting of excess GFM.

We evaluated two contractors' systems to verify the controls and accountability being used to manage GFM. The property administrator followed DAR. For example:

- He systematically and periodically reviewed the property control system.

- His reviews included annual audits, physical inspection of excess GFM and end-of-hull inventories, and unannounced site visits to observe and test procedures.

- The contractors' records were accurate, items were located in the places indicated, and excess items were being disposed of in a timely manner.

Computerized monitoring system

Seattle's computerized monitoring system provides up-to-date tracking of GFM required on repair and overhaul, as well as on new construction. The system's reports readily identify GFM status and location, document contractor receipt, and facilitate potential assignment of excess GFM to other Seattle contracts. Seattle's GFM storage is also linked to the computerized system.

The status of requisitioned GFM is monitored through a series of reports. A weekly report identifies the requisitioned item by contract line item number, document number, unit of issue, quantity ordered, location of item, required date, contractor-requested date, and estimated availability date. The current status and date of the last followup are also provided. If an item has been received at the SUPSHIP warehouse or later issued to the contractor, this report will show the date the item was received and its location.

Another report provides a requisition history for each item identified by document number and lists each status report made and advice obtained. Delinquency reports are also issued that, according to SUPSHIP officials, allow timely contractor notification to permit rescheduling of work steps that require GFM which has been delayed. This helps avoid claims against the Government for delay and disruption.

The computerized monitoring system, which has been in operation for approximately 1 year, is viewed favorably by Seattle officials. They cited several specific advantages of a computerized system over a manual system:

- A ready identification of all GFM requisitioned, received by the SUPSHIP warehouse, and issued to the contractor.

- Documentation of the contractor's receipt for an item, quantity received, and date of receipt which could preclude claims.

--Potential for immediate use of excess GFM by identifying other SUPSHIP-Seattle contracts needing the item.

NAVSEA also has a GFM tracking system under consideration that provides similar information. The Navy should compare the systems to determine which one is most advantageous to the SUPSHIP functions. As recommended in a prior GAO report, 1/ this type of system could also be used to help satisfy the need for a system to verify contractor records of GFM.

SUPSHIP-Newport News should ensure contractor compliance with DAR

SUPSHIP-Newport News is responsible for administering contracts for design, new construction, conversion repair, and overhaul awarded to the Newport News Shipbuilding and Dry Dock Company. Newport News Shipbuilding has contracts to build eight nuclear attack submarines and two nuclear aircraft carriers. Six of the submarines and the two carriers currently are being built. Moreover, four nuclear ballistic-missile submarines are being overhauled. And, four nuclear frigates were delivered recently.

We could not determine the amount of GFM involved for the above ships because no overall financial or other management systems existed to account for these materials either in total or by ship. However, we believe that the amount is well over \$1 billion. For example, we estimate that at least \$363 million of GFM will be involved for the eight attack submarines. The Navy estimates that over \$400 million of GFM will be included for the second carrier. In addition, Newport News is negotiating a contract of about \$1 billion for three more attack submarines for which the Navy has budgeted over \$400 million for GFM.

In 1976 the Naval Audit Service reported on SUPSHIP-Newport News, commenting in particular on the contractor's system for controlling GFM.

"The contractor's system for controlling GFP [Government furnished property], as approved by SUPSHIP, does not satisfy requirements of the ASPR [Armed Services Procurement Regulations] as incorporated in shipbuilding contracts and does not adequately protect the interests of the Government. As a result of procedures, SUPSHIP has no assurance that the contractor has accounted for all GFP received for installation on ships being built." (Underscoring added.)

1/"Weaknesses in Accounting for Government Furnished Material at Defense Contractors' Plants Lead to Excesses" (FGMSD-80-67, Aug. 7, 1980).

"The contractor's property control system, as approved by SUPSHIP, does not provide for a periodic physical inventory by the contractor of all GFP in his possession * * *. Our review showed that equipment often remains uninstalled after delivery of the ship for which it was procured. (Underscoring added.)

In 1980 the Naval Audit Service once again reported on deficiencies in the contractor's GFM management system:

"Although SUPSHIP requested the contractor to update his Government property control procedures in 1973, the contractor had not provided satisfactory revisions to the system as of the date of audit 6 years later. Our review also showed that required annual surveys of the property control system by SUPSHIP have not been conducted since 1977. Also the contractor has not taken periodic physical inventories of all Government property as required. As a result of these deficiencies there is no assurance that Government property in possession of the contractor is adequately controlled, protected, preserved, and maintained." (Underscoring added.)

The Naval Audit Service pointed out that, over a period of 6 years, the SUPSHIP's property administrator failed to make the contractor correct the problems in its GFM management system. On several occasions, the Navy notified the contractor that it would withdraw approval of the system if the deficiencies were not corrected. Newport News Shipbuilding submitted revised Government property management procedures in December 1979. SUPSHIP officials approved the new system without checking the adequacy of these procedures or ensuring that all of the necessary changes were made for the system to comply with DAR.

We could not take a reliable statistical sample of either the GFM in the contractor's warehouse or on its records because of the way both were being maintained. GFM was stored in the warehouse on a space-available basis, with no attempt to segregate items by hull or contract. A sample physical inventory and records check revealed inaccuracies in the contractor's GFM management system. For example:

--Two transducers valued at \$5,460 were listed on the contractor's records as being transferred to a shipyard shop in May 1975. However, as of August 1980 they were still in the warehouse. Neither the Navy nor the contractor knew the transducers were there.

- An isolator valued at \$3,500 was not included on an excess GFM list submitted to SUPSHIP in August 1979. A year later, it was still in the warehouse. Neither the property administrator nor the contractor had caught and corrected the error.
- Several items on which SUPSHIP had ordered disposition up to 3 years earlier were still in the warehouse.
- Twenty-two handsets valued at \$2,354 had no warehouse location listed on the contractor's records.
- A field modification request kit was not located in the bin indicated on the contractor's records.
- Two boxes of computer parts recorded as issued to a shop 2 months earlier were still in the warehouse.
- One of two attenuators recorded as issued to a shop was still in the warehouse.

It would take a complete physical inventory of the warehouse to determine the extent of such problems. However, we believe that, if periodic physical inventories--as required by DAR--had been made, most of these errors would have been discovered and could have been corrected. In contrast to its failure to conduct periodic physical inventories of GFM, Newport News maintains inventory teams to conduct periodic physical inventories of its own materials.

The importance of correcting the problems in the contractor's GFM control system cannot be over emphasized. Even though millions of dollars of materials are involved, the contractor has consistently failed to provide a GFM system that ensures the Government's interest is protected. Considering the recent contract award of an aircraft carrier involving over \$400 million of GFM and negotiations for three submarines involving an additional \$400 million of GFM, we believe the Navy should act immediately to correct this situation.

SUPSHIP-Portsmouth can
improve GFM management

SUPSHIP-Portsmouth administers repair and overhaul contracts for about 22 contractors located in the 5th Naval District, helps plan amphibious ship overhauls, and orders and stores GFM for repair and overhaul contracts.

Portsmouth administered contracts involving over \$3.5 million of GFM for repairs and overhauls in fiscal year 1980. These contracts involved most of the 22 contractors for which Portsmouth is currently responsible.

Portsmouth needs to improve two primary areas of GFM management:

- The current manual system of accounting for material on order and in its warehouse is inadequate for proper control over materials and is a time-consuming process for those involved.
- The property administration function could be made more efficient by bringing it into conformance with the spirit and intent of DAR.

Materials on order and in the warehouse can be managed more effectively

SUPSHIP-Portsmouth has a contract with a local computer firm to process data on GFM for ship overhauls. Every 2 weeks, the materials division receives a printout containing the status of GFM by ship hull number. The data provided could greatly aid GFM management, as it contains each item to be ordered; when it was ordered, received, and transferred to the contractor; and any problems encountered. Instead, inventory managers were using manual file folders, sometimes containing hundreds of sheets listing GFM items ordered. To determine the status of any given items, the managers would have to thumb through these sheets until they found the item they were looking for--a time-consuming process. They also had no way of knowing about GFM requiring followup or expediting without thumbing through these sheets or having someone else bring it to their attention.

Portsmouth officials said they were not using the printout because it contained numerous errors and was untimely in updating GFM status. They also said these problems would be corrected when the materials division gets its own computer terminal to process data and reports. However, we do not believe the terminal will correct all of the problems in the printout. Portsmouth now prepares the input data which is apparently resulting in numerous errors in the printout. Also, the printout should be published more often than once every 2 weeks. Portsmouth needs to carefully evaluate the problems and take appropriate corrective action before it can produce a reliable document.

We believe the system itself should be set up to provide other necessary data, such as that furnished by the computerized GFM program used at SUPSHIP-Seattle. The Seattle program also provides a status report for approaching GFM problems (for example, the contract delivery date is approaching and the GFM has not been received). It also provides an end-of-contract inventory of GFM

remaining in the SUPSHIP's warehouse for screening future needs or redistribution. For example, we identified over \$436,000 of excess new GFM located in the SUPSHIP warehouse for which there was no known need. Some of the items had been there for over 7 years. The SUPSHIP began disposal action on the excess items during our review.

The Naval Audit Service reported similar problems in October 1979. An adequate screening system could have identified these items for immediate redistribution to the supply system or to future contracts to prevent procurements. This ability to plan for future needs can also save transportation expenses and/or price increases due to inflation.

In addition, as we have suggested in prior reports, a carbon copy could be produced at little cost for the property administrator to identify items delivered to the contractor as an independent check of the contractor's receipt records.

Property administration can
be improved

Some of the property administrators were not fully carrying out their duties in accordance with DAR, thereby endangering the effectiveness of the monitoring system and creating the potential for increased cost to the Government. We noted two areas needing improvement. Some of the property administrators

- were maintaining duplicate sets of contractor records, rather than relying on the records at the contractors' sites as the official record of GFM, and

- were not conducting their annual audit at the contractors' sites.

In addition, Portsmouth appears to be overstaffed with property administrators when compared to other SUPSHIPS. Seattle has 1 property administrator to cover 13 contractors, while Portsmouth is using 6 property administrators to cover 22 contractors. The primary difference appears to be that the Seattle property administrator enforces DAR to ensure that the contractors' systems are reliable. In contrast, several of the Portsmouth property administrators were maintaining duplicate sets of the contractors' records--a time-consuming process--rather than relying on the contractors' systems. We believe greater reliance on the contractors' records as required by DAR could reduce the number of property administrators needed by Portsmouth.

Some of the property administrators were filling out annual audit reports at their desks rather than at the contractors' sites. This practice prevents sampling and verification of the accuracy of contractors' records, as well as visual inspection and verification of physical conditions for maintaining and protecting GFM. The purpose of the audit is to independently evaluate the contractors' control systems at a particular point in time to ensure protection of the Government's interest. We believe only actual onsite review and testing can provide this assurance.

SUPSHIP-Pascagoula can improve
its disposal process for GFM

SUPSHIP-Pascagoula administers Navy and other Department of Defense contracts for ship design, construction, conversion, outfitting, repair, alteration, overhaul, and facility contracts at the east and west bank sites of Ingalls Shipbuilding Division, Litton Systems, Inc., Pascagoula, Mississippi.

Although Ingalls is primarily a new construction contractor, it also does some overhaul work. It is currently building one destroyer, four guided-missile destroyers, and two guided-missile cruisers and is overhauling one destroyer. Ingalls recently completed delivery on two multihull surface ship contracts totaling about \$4.7 billion.

Pascagoula complied with DAR and other Defense and Navy directives except for its disposal of GFM. The lack of compliance covers three categories of GFM--excess, scrap, and salvage.

Excess GFM

The SUPSHIP is not following procedures outlined in Naval Material Command instructions for screening contractor inventories of excess GFM. Rather than submitting inventory lists of excesses to the Defense Industrial Plant Equipment Center (DIPEC) as required, Pascagoula is shipping excess GFM to the Interfleet Supply Support Operations Team (ISSOT) in Portsmouth, Virginia, for screening and disposition. SUPSHIP officials feel they can get better use and faster shipment by using the ISSOT; specifically, they claim that as compared to using DIPEC:

- Item preparation is easier, faster, and cheaper.
- Shipment from the contractor's plant can be made in 45 to 60 days, rather than the 150 to 180 days DIPEC requires.
- ISSOT improves material use by returning more to the supply system.

SUPSHIP-Seattle was also using an ISSOT to redistribute nonstandard and other items that could not readily be returned to the supply system.

In March 1979, the Naval Area Service also reported that SUPSHIP-Pascagoula was not screening excess contractor inventories as required through DIPEC. At that time, the Pascagoula claimed the same advantages as above. However, the Naval Area Service did not believe itself to be in a position to evaluate the merits of either the ISSOT or the DIPEC redistribution programs. We also are not in a position to evaluate these programs' merits.

Because of the advantages claimed by SUPSHIP-Pascagoula, and the satisfaction with ISSOT results cited by Seattle, we believe the Navy should study the two programs to determine which one, in fact, is more advantageous to the Government. Using these results, the Navy should ensure consistent application by all SUPSHIPS.

Scrap and salvage

Pascagoula was not managing scrap and salvage as required by DAR. Pascagoula's property administrator was aware of the DAR requirement to verify quantities and to ensure that sales proceeds are fair and credited against the contract costs, but he was not doing so. In 1976 he wrote three SUPSHIP-Pascagoula instructions outlining Pascagoula's scrap and salvage responsibilities. These instructions are still in effect even though they are not being followed.

According to the property administrator, Pascagoula's former plant clearance officer directed the instructions not be enforced. Therefore, the property administrator has not attempted to enforce either DAR or SUPSHIP requirements. He also considers the dollar value and quantity of scrap and salvage insignificant and time and personnel too short to warrant using DAR's monitoring system.

The property administrator also did not know whether the contractor maintains records of scrap and salvage, nor does he audit these records. No written procedures were in the contractor's Government property manuals regarding scrap or salvage.

Pascagoula's current plant clearance officer said he did not know that DAR required him to monitor the contractor's scrap and salvage procedures, or that SUPSHIP instructions outlined his responsibilities for this. He was not performing the functions required by either.

We could not determine the amount of scrap and salvage involved, since sales proceeds are buried in the contractor's overhead accounts and change orders. Accordingly, we could not determine whether these proceeds were properly credited against the Navy contracts. Without any Pascagoula monitoring, the contractor apparently has a free hand in managing and selling scrap and salvage. Pascagoula officials said they would review the DAR requirements and ensure enforcement.

The head of NAVSEA's SUPSHIP Management Division's Operations Branch told us that Pascagoula's new materials manager is correcting these deficiencies by bringing Pascagoula into full compliance with DAR.

CONCLUSIONS AND RECOMMENDATIONS

The Navy needs to make improvements in its management of GFM to ensure the Government's interest is adequately protected.

The Navy has no central point of control or accountability for GFM. Instead, many commands are involved in its management, and their efforts are not coordinated to prevent duplication or to ensure consistency. These problems are compounded by the lack of inventory manager visibility over GFM in the possession of SUPSHIPS and contractors. Moreover, no activity actively monitors the performance of the various SUPSHIPS to ensure consistent interpretation and application of GFM regulations and directives.

Although the SUPSHIPS' basic regulations and directives for GFM management are the same, they did not interpret and apply these in the same manner. As a result, their effectiveness in managing GFM varied widely.

Seattle was managing GFM in a more effective manner by enforcing DAR's requirements on contractors and by using an in-house computerized monitoring system for management prior to delivery to the contractor.

The failure of the three other SUPSHIPS to fully enforce DAR led to inaccuracies and inefficiencies in contractors' GFM control systems, caused excess items to be held for extended periods of time, and inadequately protected the Government's interest.

Other areas need improvement:

- Unnecessary costs may be incurred when SUPSHIPS do not screen excess new GFM against future needs.
- NAVSEA activities involved in GFM procurement lose sight of items located in both the contractors' and SUPSHIPS' warehouses. This creates the potential for unneeded procurement.

We recommend that the Secretary of the Navy:

- Develop a system for maintaining overall financial and logistics data to control GFM.
- Develop an information system to provide inventory managers visibility over GFM in the possession of SUPSHIPS and contractors. This system would allow procuring activities to compare excess GFM to planned procurements and allow these items to be redistributed to meet the highest priority needs throughout the Navy.
- Study the Seattle and NAVSEA computerized monitoring systems to determine which is the most effective and economical for SUPSHIP applications.
- Ensure GFM redistribution is done in the most timely and economical manner.
- Evaluate each SUPSHIP to ensure property administrators are enforcing DAR requirements and ensuring the reliability of contractors' records through periodic inventories, onsite audits, and unscheduled inspections.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen, House and Senate Committees on Appropriations and on Armed Services, Senate Committee on Governmental Affairs, and House Committee on Government Operations; the Director, Office of Management and Budget; and the Secretary of Defense.

Sincerely yours,


Donald J. Horan
Director

Enclosure

ENCLOSURE

ENCLOSURE

PRIOR GAO AND NAVAL AUDIT

SERVICE REPORTS

GAO REPORTS

"Weaknesses in Accounting for Government Furnished Materials at Defense Contractors' Plants Lead to Excesses" (FGMSD-80-67, Aug. 7, 1980).

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